



## **PUBLIC DISCLOSURE**

June 26, 2017

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First-Lockhart National Bank  
Charter Number 13934

111 South Main Street  
Lockhart, TX 78644

Office of the Comptroller of the Currency  
San Antonio North Field Office  
10001 Reunion Place, Suite 250  
San Antonio, Texas 78216-4165

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## **Overall CRA Rating: This institution is rated Outstanding.**

### **The Lending Test is rated: Outstanding**

The primary factors supporting the rating are summarized below:

- The bank originated a substantial majority of loans inside its assessment area (AA).
- The bank's loan-to-deposit (LTD) ratio is more than reasonable, considering the bank's profile, loans sold on the secondary market, strong competition, and peer averages.
- The geographic distributions of residential and consumer loans reflect excellent dispersion to borrowers in low- and moderate-income (LMI) geographies. The dispersion of small business loans is reasonable compared to AA demographics.
- The distributions of small business loans and consumer loans reflect reasonable penetration to businesses of different sizes and to borrowers of different incomes, including LMI borrowers. Residential loan distributions are also reasonable, when considering the number of loans to entities that provide affordable housing alternatives in the bank's AA.
- In addition, community development (CD) loan performance demonstrates excellent responsiveness to affordable housing and small business needs in the AA.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation (PE), including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area (MA)/AA.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. CT boundaries do not cross county lines; however, they may cross the boundaries of MAs. CTs usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. CTs are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multi-family rental housing) for LMI individuals; community services targeted to LMI individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize LMI geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under the Department of Housing and Urban Development (HUD) Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's AAs or outside the AA(s) provided the bank has adequately addressed the CD needs of its AAs.

**Community Reinvestment Act (CRA):** The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** Loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** Is a CT delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area (MSA) to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for pre-approval, and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancing, as defined in the HMDA regulation. These include loans for multi-family (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100% tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50% of the area median income, or a median family income (MFI) that is less than 50%, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/AA.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by HUD annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any MSA or metropolitan division, as defined by the OMB and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division (MD):** As defined by OMB, a county or group of counties within an MSA that contains a population of at least 2.5 million. An MD consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** An area, defined by the OMB, as having at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80% and less than 120% of the area median income, or a MFI that is at least 80% and less than 120%, in the case of a geography.

**Moderate-Income:** Individual income that is at least 50% and less than 80% of the area median income, or a MFI that is at least 50% and less than 80%, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose CD.

**Rated Area:** A rated area is a state or multi-state MA. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains

domestic branches in two or more states within a multi-state MA, the institution will receive a rating for the multi-state MA.

**Small Loans to Businesses:** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loans to Farms:** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier 1 Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120% of the area median income, or a MFI that is at least 120%, in the case of a geography.

## Description of Institution

First-Lockhart National Bank (FLNB), headquartered in the city of Lockhart, Caldwell County, Texas, is located 40 miles southeast of Austin, Texas, and operates solely in the state of Texas. FLNB is 100% owned by Lockhart Bancshares, Inc. (LBI), a one-bank holding company, also headquartered in Lockhart. LBI is a sub-chapter S company, independently owned by its shareholders.

FLNB has three offices in the Austin-Round Rock MSA - the main office in Lockhart, a branch in Kyle, and a branch in south Austin. The branch locations are new since the previous CRA evaluation. The Kyle branch, located in Hays County, opened in November 2012. The branch in south Austin, located in Travis County, opened in December 2013.

FLNB's primary loan products are commercial loans and residential real estate lending. The bank also originates residential mortgage loans for sale into the secondary market and offers various consumer loan products, primarily in the Caldwell County market. FLNB reported total assets of \$250 million and total loans of \$174 million as of March 31, 2017. Total loans comprise 69% of the bank's total assets. The composition of the loan portfolio is summarized in the following table.

LOAN PORTFOLIO SUMMARY BY PRODUCT		
MARCH 31, 2017		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial and Commercial Real Estate Loans	75,442	43%
Residential Real Estate Loans (1-4 Family)	64,718	37%
Residential Construction Loans	13,122	8%
Agriculture/Farm Related	6,222	4%
Other Construction Loans	5,766	3%
Multi-Family Loans	4,868	3%
Consumer Loans	2,437	1%
Obligations of States, Political Subdivisions	1,260	1%
<b>Total Loan Portfolio</b>	<b>173,835</b>	<b>100%</b>

The most recent FDIC Institution Branch Report showed FLNB had total deposits of \$211 million as of June 30, 2016. The Lockhart office had \$170 million, or 81%, of total bank deposits. Internal bank reports from January 1, 2014 to December 31, 2016, show the Lockhart office had by percentage, the largest number of loan originations at 44%, but only 13% of the dollar volume. This is consistent with the bank's focus on smaller dollar consumer loans in this market and the smaller dollar residential and business loans originated in the Lockhart office. The FDIC Market Share Report as of June 30, 2016 shows FLNB had the largest deposit market share (47%) of the six institutions in Caldwell County.

The Austin branch reported total deposits of \$29 million or 14% of total bank deposits. Internal bank reports show the Austin branch has the largest dollar volume of loan originations (46%), which is attributed to the larger commercial and residential real estate loans originated in this market.



The Kyle branch is the smallest of the three offices with total deposits of \$11 million or 5% of total bank deposits. Internal bank reports show this branch had 12% of the number of loan originations and 10% of the dollar volume.

FLNB offers a variety of loan and deposit services and delivery channels. FLNB's online and electronic delivery channels enable the bank to reasonably serve customers in the large AA. The bank's Internet website ([www.firstlockhart.com](http://www.firstlockhart.com)) offers online deposit account opening, online applications for various consumer and residential loan products, online banking services, bill pay, mobile banking and remote deposit capture. The bank also offers telephone banking and electronic delivery of monthly bank statements. FLNB offers two lower-cost deposit products with a low \$50 minimum opening balance requirement and no monthly maintenance fees for customers who request electronic delivery of bank statements. One product is an interest bearing account with no minimum balance requirement, and refunds automated teller machine (ATM) fees nationwide. This account also includes free online banking, telephone banking services, and, unlimited check writing, if customers request e-statements and have at least one ACH or recurring deposit and ten debit card purchases during the statement cycle.

Each FLNB location has lobby hours from 9 AM to 5 PM Monday through Friday. The Austin branch lobby is also open from 10 AM to 2 PM on Saturdays. Each FLNB location has an adjacent drive-through facility that offers extended hours. In addition, a stand-alone drive-through facility is located across the street from the main office in downtown Lockhart. Three of the four drive-through facilities are open on Saturdays. The stand-alone drive-through facility is not open on Saturdays, but FLNB has an ATM at this location that takes deposits. The bank also has an ATM located in the Lockhart main bank lobby and a deposit-taking ATM in each Kyle and Austin drive-through facility.

The previous CRA evaluation, dated July 16, 2012, assigned a "Satisfactory" rating to FLNB's lending performance. There are no legal, financial, or other factors that impact FLNB's ability to meet credit needs in its AA. FLNB's current business strategy is to continue offering commercial and residential loans as primary loan products.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

We evaluated FLNB's performance using interagency Small Bank CRA procedures. The procedures include a lending test that evaluates the bank's record of meeting AA credit needs through its lending activities. Evaluating CD activities is optional under the Small Bank CRA examination procedures; however, at management's request, we evaluated CD loan activities.

This PE focused on the bank's primary loan products. We selected a sample of 40 commercial loans originated, and all residential real estate loans reported pursuant to HMDA, between January 1, 2014 and December 31, 2016. We also selected a sample of 30 consumer loans originated during the same period to help evaluate FLNB's responsiveness to AA credit needs.

## **Data Integrity**

FLNB's auditors performed HMDA data integrity reviews for 2014, 2015, and 2016 data. We reviewed the audit work papers and supplemented the audit work performed by testing additional loan samples. In addition, we tested and validated the bank's internal geographical analysis of loan distributions. We found HMDA data and internal report information reliable for use during this evaluation.

## **Selection of Areas for Full-Scope Review**

FLNB's AAs included Caldwell County, Hays County, and Travis County. Since all three counties are part of the Austin-Round Rock MSA, we combined the counties for analytical purposes. We performed a full-scope review of the combined AAs. Refer to the table in Appendix A for more information.

## **Ratings**

The bank's overall rating is based primarily on lending performance in the combined full-scope AA. We reviewed CD activities to determine if the activities were responsive to AA needs and if they enhanced credit availability in the AA.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution's lending performance] has engaged in discriminatory or other illegal credit practices.

The OCC will consider any evidence of discriminatory or other illegal credit practices relative to this institution that other regulators may provide to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information provided concerns activities that occurred during the evaluation period addressed in this performance evaluation.

# Conclusions with Respect to Performance Tests

## LENDING TEST

FLNB’s performance is outstanding when considering the more than reasonable LTD ratio, the number and volume of loans originated into the secondary market, performance context, and the geographic distribution of loans. The bank’s community development lending activities have been responsive to AA needs.

### Loan-to-Deposit Ratio

The bank’s LTD ratio is more than reasonable, given the bank’s asset size, financial condition, competitive environment, and lending opportunities inside its AA.

Since the last CRA evaluation, FLNB’s average quarterly LTD ratio has increased slightly from 75% to 79%. The average LTD ratio of six similarly situated banks operating in the bank’s market areas was lower at 67%. The table below compares FLNB’s average quarterly LTD ratio with the six peer institutions.

BANK NAME	CITY	STATE	TOTAL ASSETS (000s) (March 31, 2017)	Average LTD Ratio
<b>First-Lockhart National Bank</b>	<b>Lockhart</b>	<b>TX</b>	<b>250,352</b>	<b>79%</b>
Sage Capital Bank, National Association	Gonzales	TX	339,349	64%
Citizens State Bank of Luling	Luling	TX	64,144	79%
The First National Bank of Bastrop	Bastrop	TX	532,024	60%
The City National Bank of Taylor	Taylor	TX	201,536	51%
Schertz Bank & Trust	Schertz	TX	357,505	76%
R Bank	Round Rock	TX	416,084	72%

During the evaluation period, FLNB originated and sold 168 residential mortgage loans totaling \$49 million into the secondary market. FLNB’s average quarterly LTD ratio does not clearly reflect this additional loan volume as these loans are on FLNB’s books only for a very short period of time, typically less than thirty days.

### Lending in Assessment Area

FLNB originated a substantial majority of its loans, by number and dollar volume, inside its AA. We evaluated FLNB’s performance by reviewing and validating internal bank reports that included all loan originations from January 1, 2013 to December 31, 2016. We also considered HMDA reportable loans from January 1, 2014 through December 31, 2016. As reflected in the table below, FLNB originated 79% of the number of loans and 69% of the dollar volume inside the bank’s AA.

Internal reports reflected FLNB originated 44% of its loans, by number, in Caldwell County, and 46%, by dollar volume, in Travis County. The dollar volume of consumer loans is much smaller than the dollar volumes of commercial and residential loans, but consumer loans represent a significant number of loan originations.

LENDING IN THE ASSESSMENT AREA: CALDWELL, HAYS, AND TRAVIS COUNTIES										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	124	69	56	31	180	32,216	73	11,759	27	43,975
AG Related	29	64	16	36	45	1,220	42	1,654	58	2,874
Commercial Related	433	72	165	28	598	124,434	68	59,526	32	183,960
Consumer Loans	521	89	65	11	586	5,261	83	1,092	17	6,353
<b>Total</b>	<b>1,107</b>	<b>79</b>	<b>302</b>	<b>21</b>	<b>1,409</b>	<b>163,656</b>	<b>69</b>	<b>74,031</b>	<b>31</b>	<b>237,162</b>

Source: 2014-2016 HMDA, Loan sample and Bank Data

## Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distributions of mortgage loans to borrowers of different income levels and loans to businesses of different sizes reflect reasonable penetration, given the bank's product offerings and size, economic conditions, and the competitive environment in the bank's AA. The distribution of consumer loans to borrowers of different income levels reflects excellent penetration among LMI individuals and households.

Our analysis of mortgage lending considered the shortage of affordable housing options in the AA and the challenges that many LMI borrowers have qualifying for mortgage loans. We also considered lending activities to individuals and entities that invest in and make residential properties available to LMI individuals and families in the AA.

## Residential Loans

From January 1, 2014 through December 31, 2016, FLNB originated 124 residential mortgage loans totaling \$32 million in the bank's AA. The majority, 98 loans totaling \$24 million were home purchase loans. We assessed performance based on the combination of all residential loan product types because the number of home improvement and refinance loans was too small for a meaningful analysis of the individual product types.

As reflected in the table below, the percentages of the residential loans to LMI borrowers was lower than AA demographics.

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN CALDWELL, HAYS, AND TRAVIS COUNTIES								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Purchase	24	0	17	9	18	20	41	38
Improvement	24	0	17	0	18	0	41	100
Refinance	24	5	17	19	18	14	41	52
<b>Total</b>	<b>24</b>	<b>1</b>	<b>17</b>	<b>10</b>	<b>18</b>	<b>19</b>	<b>41</b>	<b>43</b>

Source: 2010 U. S. Census Data. HMDA data 2014-2016. FLNB reported income as NA for 32 purchase loans (33%) and 2 refinance loans (28%).

The poor penetration of residential loans to LMI borrowers is mitigated by the significant number of loans to business entities and individuals that make affordable housing available to AA residents. Ten of the 20 home purchase loans to middle-income borrowers (50%) were to a local investor who rents properties to LMI individuals. Pursuant to HMDA requirements, FLNB reports income as NA on loans to partnerships and corporations. During the evaluation period, FLNB reported 34 loans with income as NA; 32 home purchase loans (33%), and 2 refinance loans (28%). Twelve of the 32 home purchase loans were to two entities that focus on providing affordable housing solutions to AA residents.

One entity is a non-profit community development corporation (CDC) that serves the bank’s AA and residents of Central Texas. The CDC focuses on pre-purchase home buyer education, mortgage delinquency counseling, and acquisition and rehabilitation of homes for LMI residents. The CDC is funded by the city of Austin, county and state organizations, as well as local businesses and other non-profits. During the evaluation period, FLNB provided the CDC with permanent financing of \$325 thousand for three residential properties. All three loans are reported on HMDA. FLNB funded an additional home purchase loan totaling \$90 thousand to the CDC in 2013.

The second entity, a Lockhart corporation, purchases and renovates homes, and provides affordable rental properties to LMI residents of Lockhart and Austin. During the evaluation period, FLNB originated nine home purchase loans totaling \$1.6 million to this entity.

As discussed in Appendix B, another factor contributing to the bank’s performance is the shortage of affordable housing units in the AA.

**Business Loans**

The distribution of sampled business loans reflects reasonable penetration to small businesses, defined as businesses with gross annual revenues of \$1 million dollars or less. As reflected in the table below, the number of loans to small businesses in our sample was slightly less than AA demographics but the dollar volume exceeded AA demographics.

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN CALDWELL, HAYS, AND TRAVIS COUNTIES</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	85%	5%	10%	100%
% of Bank Loans in AA by #	70%	25%	5%	100%
% of Bank Loans in AA by \$	87%	13%	0%	100%

Source: D&B as of June 2016, 2010 Census, Sample of 40 Business Loans (2014-2016)

## Consumer Loans

The distribution of consumer loans to borrowers of different income levels reflects excellent penetration to LMI borrowers. The bank's performance exceeds comparable AA demographics for both LMI households as reflected in the table below.

BORROWER DISTRIBUTION OF CONSUMER LOANS IN CALDWELL, HAYS, AND TRAVIS COUNTIES								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	26	27	17	20	17	37	40	13

Source: 2010 Census Data, Sample of 30 loans (2014-2016). NA was 3.33%, representing only one loan.

## Geographic Distribution of Loans

The geographic distributions of residential and consumer loans reflects excellent dispersion in LMI geographies. The dispersion of small business loans is reasonable compared to the AA demographics.

## Residential Loans

The geographic dispersion of residential loans is excellent. As reflected in the table below, residential loans in both low-income and moderate-income areas significantly exceeded AA demographics. The excellent performance in moderate-income areas is partially attributed to the demographics of Caldwell County, where the majority of CTs are moderate-income.

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN CALDWELL, HAYS, AND TRAVIS COUNTIES								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	6	12	20	41	31	32	43	15
Improvement	6	0	20	0	31	40	43	60
Refinance	6	0	20	19	31	52	43	29
<b>Total</b>	<b>6</b>	<b>10</b>	<b>20</b>	<b>35</b>	<b>31</b>	<b>36</b>	<b>43</b>	<b>19</b>

Source: HMDA 2014-2016, 2010 Census Data

## Business Loans

The geographic distribution of sampled business loans reflects reasonable dispersion. FLNB made fewer business loans in the low-income CTs; however, there are no low-income tracts in Caldwell County and few low-income CTs near the bank's branches in Travis and Hays counties. Approximately 8% of the AA's businesses that report annual revenue are located in low-income CTs. Considering the bank's limited opportunity and strong competition, performance is reasonable.

The dispersion of business loans in moderate-income areas is excellent and significantly exceeds AA demographics. The following table further details the bank’s performance as compared to the percentage of businesses in each CT income level.

GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN CALDWELL, HAYS, AND TRAVIS COUNTIES								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Business Loans	8	3	18	47	24	43	50	7

Source: D&B as of June 2016; Sample of 40 Business Loans (2014-2016)

## Consumer Loans

As reflected in the table below, our sample of consumer loans reflects excellent penetration in moderate-income CTs, significantly exceeding AA demographics. FLNB originates most (over 57%) consumer loans in Caldwell County, which has no low-income CTs. The very strong performance in moderate-income CTs mitigates the weaker performance in low-income CTs.

GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN CALDWELL, HAYS, AND TRAVIS COUNTIES								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	14	0	24	53	29	47	33	0

Source: 2010 US Census, Sample of 30 consumer loans (2014-2016)

## Other Activities

As noted in the Scope of the Evaluation section, a CD test is not included in the small bank CRA procedures. However, if bank management requests, we will review CD activities and determine if the activities were responsive to AA needs and enhanced credit availability in the AA.

During this evaluation period, FLNB funded seven CD-related loans totaling \$3.4 million. Two loans totaling \$1.9 million, provided affordable housing opportunities; four loans totaling \$1.4 million established new small businesses supporting economic development; and one loan totaling \$34 thousand supporting revitalization in a rural, predominately moderate-income area of Caldwell County. FLNB participated in the federal government’s Small Business Administration (SBA) program in providing funding for the new business entities.

FLNB also originated five CD related loans totaling \$1.1 million just outside its AA. One loan was in Williamson County, which is part of the Austin-Round Rock MSA. This loan totaled \$110 thousand and provided interim construction financing for affordable housing.

The other four loans supported economic development through SBA financing in neighboring counties.

Bank employees are involved in various charitable organizations that help provide essential services such as free medical care for children, and food and clothing for those in need, to LMI individuals and families. FLNB has also supported educational needs in the Lockhart ISD, where over 50% of the students are economically disadvantaged, by serving on boards and contributing to entities that provide scholarships to Lockhart students. During the evaluation period, FLNB contributed \$15 thousand to the Lockhart ISD Education Foundation, which provides resources for educational programs not funded through local, state, or federal taxes. FLNB has also focused on supporting economic development in the AA through participation in the Greater San Marcos Partnership, with a \$15 thousand contribution during the evaluation period. The organization supports economic development through job creation and capital investment in Hays and Caldwell counties.

FLNB's small business lending activities reflect excellent responsiveness to AA needs, particularly with loan originations to local non-profits and entities providing essential services in the bank's AA. During the evaluation period, FLNB provided approximately \$106 thousand in funding to a Caldwell County volunteer fire department and emergency services district. The bank has also provided \$105 thousand in working capital funds for a larger non-profit entity in Caldwell County, which provides leadership training for the Latino youth and college students throughout the United States and Latin America.

### **Responses to Complaints**

FLNB and the OCC have not received any CRA-related complaints during the evaluation period.



## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD loans): (01/01/2014 to 12/31/2016)  Investment, Service Tests and CD Loans: (Optional) (07/17/2012 to 06/26/2017)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
First-Lockhart National Bank (FLNB) Lockhart, Texas	HMDA Loans Business/Commercial Loans Consumer Loans	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
Not applicable		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Austin-Round Rock - #12420 (Texas)	Full-Scope	Caldwell, Hays, Travis Counties

## Appendix B: Community Profiles for Full-Scope Areas

Demographic Information for Caldwell, Hays, Travis Counties Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	261	14.3	26.7	28.3	29.5	1.2
Population by Geography	1,219,439	15.1	25.9	26.9	31.8	0.2
Owner-Occupied Housing by Geography	247,634	6.4	20.1	30.5	43.0	0.0
Businesses by Geography	114,777	8.1	17.9	24.1	49.7	0.1
Farms by Geography	2,266	5.6	20.8	26.9	46.6	0.0
Family Distribution by Income Level	264,521	24.3	17.0	18.2	40.5	0.0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	109,325	25.4	34.1	24.7	15.7	0.0
Census Median Family Income FFIEC Adjusted Median Family Income 2016 Households Below Poverty Level		\$71,602 \$77,800 14.32%	Median Housing Value Unemployment Rate: Austin MSA: June 2017		\$218,340  3.4%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 U.S. Census, and 2016 FFEIC updated MFI, May 2017 U.S. Bureau of Labor Statistics.

FLNB's AAs included Caldwell County, Hays County, and Travis County. Since all three counties are part of the Austin-Round Rock MSA, we combined the counties for analytical purposes. The AAs meet the requirements of the CRA regulation and do not arbitrarily exclude LMI geographies.

FLNB has three offices in the AA and five ATMs. The main office is located in a middle-income CT in downtown Lockhart, Texas, Caldwell County. FLNB has two drive-through facilities in Lockhart, one adjacent to the main office and another located just across the street in an adjacent moderate-income CT. FLNB operates a stand-alone ATM in a moderate-income CT of Caldwell County. The Hays County branch in Kyle, Texas, is located in a middle-income CT. The Austin branch in Travis County is located in a moderate-income CT.

FLNB faces very strong competition in the AA from a variety of institutions, including local community banks, credit unions, savings institutions, mortgage companies, large regional banks, private equity funds, and some of the largest banks in the nation. The FDIC's June 30, 2016 Deposit Market Share Report shows that there are 58 institutions operating 316 offices in the AA. The market leaders include Wells Fargo Bank, National Association; Bank of America, National Association; JP Morgan Chase Bank, National Association, as well as large regional banks and smaller local competitors in Caldwell County. Although FLNB is the market leader in Caldwell County with 47% of the county's total deposits, in the larger three-county AA, FLNB ranks 19<sup>th</sup> out of the 58 institutions with 0.64% of the deposit market share.

The largest county in the AA is Travis County with an estimated population of 1.2 million according to July 2016 updated estimates from the U.S. Census Bureau. Austin is the largest city in Travis County as well as the state capital. Hays County is the second largest county in the AA with an estimated population of 204 thousand in July 2016. The largest cities in Hays County include San Marcos, Kyle, Dripping Springs, and Wimberley. Caldwell County is the smallest county with an estimated population of 41 thousand. The city of Lockhart is the Caldwell County seat, with an estimated population of 13.5 thousand, according to the Census Bureau in July 2016. Census data shows strong population growth in these counties from 2010 to 2016; ranging from 30% in Hays County to 17% in Travis County and 8% in Caldwell County.

Many Caldwell County residents commute to nearby Austin or San Marcos for employment opportunities. According to the Austin Chamber of Commerce, major employers in the greater Austin metropolitan area include several global technology companies such as Apple, Dell Inc., Hewlett-Packard, IBM, Intel, Oracle, Facebook, and eBay. Semiconductor chip manufacturing companies, such as Applied Materials, Advanced Micro, (AMD), NXP Semiconductors, and Samsung are also major employers in the area.

Major employers in the AA include the local city, county, state and federal governments, and the school districts in Travis, Hays and Caldwell Counties. Other major employers include the University of Texas at Austin, Texas State University in San Marcos, Austin Community College, Seton Healthcare Network, HEB, St. David's Healthcare, Wal-Mart, and Amazon. Serta Dormae manufacturing and the Lockhart Correctional Facility are major employers in Lockhart, Texas.

Information from the United States Bureau of Labor Statistics (BLS) in June 2017 indicates Travis County had the lowest unemployment rate at 3.3%, while Caldwell County had the highest at 4.4%. The unemployment rate in Hays County was 3.6%. Unemployment rates in the bank's AA were lower than the state of Texas at 4.6% and the national rate of 4.5%. The BLS also reported the weekly average wage in Caldwell County was the lowest of the three counties at \$710, compared to \$759 in Hays County, and \$1,244 in Travis County.

The 2016 FFIEC MSA weighted average MFI for the bank's AA was \$77,800. When reviewed at the county level, incomes were lower in Caldwell County, which reported a weighted average MFI of \$51,452, as compared to Travis County with \$79,592, and Hays County with \$78,543. The percentage of households below poverty level was higher in Caldwell County and Hays Counties at 16% as compared to 14% in Travis County. Moderate-income borrowers in this AA earn less than 80% of the AA MFI, which approximates \$62 thousand. Low-income borrowers earn less than 50% of the MFI, which is \$39 thousand or less.

HUD's Comprehensive Housing Market Analysis in January of 2016 summarized the local economy and local housing market. This report highlighted the improved economy in the Austin-Round Rock MSA since 2010, but noted that job growth had slowed in 2015. More

recent data from the Texas Workforce Commission in June 2017 shows that employment growth in the MSA was up 2.8% over the past year, which is just slightly below HUD's 3-year forecast for job growth and slightly higher than forecasted by Moody's Analytics in a report dated November 2016.

HUD's report, indicates that the sales and rental housing market in the Austin-Round Rock MSA is tight because of strong job gains and population growth since 2010. The report further states that despite an increase in sales activity from 2012 through 2015, the home ownership rate in the MSA declined from 2010 because of an increased preference for rental housing. Census data in 2010 reported the weighted average gross monthly rent in the MSA was \$905. Rental rates in the MSA have continued to increase as reflected in HUD's 2017 fair market rents, which are \$1,195 for a two bedroom and \$968 for a one-bedroom unit.

The average median home value in the bank's AA was \$218 thousand according to the 2010 Census information. Updated information from the Census Bureau from 2011 to 2015 reflects increasing home values in the bank's AA. The updated census data shows that the median owner-occupied home value in Travis County is the highest in the bank's AA at \$237 thousand, which is also higher than state median values of \$136 thousand, and higher than national median values of \$179 thousand. The Hays County median home value at \$181 thousand is also higher than state and national median values. According to the updated census data, residential home values are lower in Caldwell County than in other parts of the bank's AA at \$115 thousand. Median home values in Caldwell County were also lower than state and national averages.

More recent data from the Austin Board of Realtors (ABOR) and Texas A&M's Real Estate Center in June 2017, indicates that single family home sales activity and prices in the Austin-Round Rock MSA have continued to increase. Sales of single family units were 2.8% higher in June 2017 as compared to the same period in June 2016. Average prices increased 6.6% during this same period and median home value rose to over \$300 thousand. The ABOR market report in June 2017 further indicates that single-family homes in many of the local markets within the Austin-Round Rock MSA are \$10 to \$20 thousand higher than in the prior year and that over time strong annual gains in median sales prices mean a significant impact on housing affordability for area residents. The ABOR report indicated that housing inventory and listing activity throughout Central Texas was higher than in 2016, but the housing inventory was still below Texas A&M's estimation of inventory for a balanced market. ABOR's report in May 2017 stated that an analysis of inventory levels by price class showed inventory levels for homes priced below \$250 thousand remained critically low, as rising property values and housing development costs are rapidly shifting the price range of available housing upward. A report from Moody Analytics in November 2016 also indicated that affordability in the Austin-Round Rock MSA was among the lowest in Texas impacted by the job and population growth. HUD's 2016 Comprehensive Market Report projected a demand for 36,950 new homes in the MSA over the next three years with 40% in homes priced from \$140,000 to \$249,999.

## **Community Contacts**

As part of this evaluation, we assessed the credit needs and opportunities in the bank's AA by reviewing CRA Performance Evaluations of other banks operating in the same areas and by performing a community contact in the bank's largest market, Caldwell County. The community organization contacted during this evaluation focuses on economic development in Lockhart and Caldwell County. We also reviewed information from four non-profit community contacts serving the bank's AA, that focus on economic development, affordable housing, and revitalization of underserved areas in the Austin MSA. We determined the most pressing needs in the AA are affordable housing and small business lending. Other identified opportunities included public, private partnerships for the more distressed areas of Caldwell County and small business education and training.